

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7122**

**BILL NUMBER:** HB 1335

**NOTE PREPARED:** Jan 14, 2004

**BILL AMENDED:**

**SUBJECT:** Police and Firefighter Pensions.

**FIRST AUTHOR:** Rep. Kersey

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**     **GENERAL**  
                              **DEDICATED**  
                              **FEDERAL**

**IMPACT:** Local

**Summary of Legislation:** This bill provides that a police officer or firefighter who retires or becomes disabled after December 31, 2005, is entitled to a pension based on the salary of the rank held at the time of retirement or disability. It provides that a surviving spouse of a police officer or firefighter who dies after December 31, 2005, is entitled to an annuity based on the salary of the rank held at the time of the death of the police officer or firefighter. The bill provides that certain surviving children of a police officer or firefighter who dies after December 31, 2005, are entitled to an annuity based on the salary of the rank held at the time of the death of the police officer or firefighter.

**Effective Date:** July 1, 2004.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** NOTE: *The following impact is based on data from January 2003. It will be updated upon receipt of more current information.*

The impact is based on the estimate that the salary of the rank would on average be 20% higher than a first class salary at a member's retirement. For the 1925, 1937, and 1953 funds, (Old Plan) it is estimated that there would be a decrease in the unfunded actuarial liability of approximately \$122 M. The decrease is the result of the net effect of the increase in benefits due to the use of the salary of the rank and the decrease in benefits due to the reduction in the benefit formula from as high as 74% down to 50%.

The impact to the 1977 Police Officers' and Firefighters' Fund is as follows.

Estimated Increase in Unfunded Accrued Liability	\$120.6 M
Estimated Increase in Annual Funding	\$12.7 M
Employer Contribution Percentage*	19.8%

\*Although this is a decline in the contribution as a percent of payroll, payroll is now the “salary of the rank” which is assumed to be 20% greater than a 1<sup>st</sup> Class salary.

**Explanation of Local Revenues:**

**State Agencies Affected:** The Public Employees’ Retirement Fund as administrators of the 1977 Police Officers’ and Firefighters’ Fund.

**Local Agencies Affected:**

**Information Sources:** Doug Todd of McCready & Keane, Inc., actuaries for the Police and Fire Funds, 576-1508.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**Additional Information/Definitions:**

**Actuarial Liability:** The excess of the present value of all benefits thereafter payable under the system over the present value of future normal costs.

**Contribution Rate:** As to an employee, a factor, such as a percentage of compensation, used in determining the amounts of payments to be made by the employee under a contributory pension plan. As to the employer, a factor, calculated in an actuarial valuation, to be used in determining the employer’s annual normal cost contribution under a pension plan. An employer’s contribution rate may be either a percentage to be applied to the total compensation paid to covered employees for a particular year, or an amount in dollars to be applied to the total number of covered employees at a particular date.

**Converted Plan:** Members hired before May 1, 1977, who have elected to convert to the benefit structure under the 1977 Act.

**Funding:** A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

**Non-Converted 1977 Plan:** Members hired after April, 30, 1977, all of whom are covered by the benefit structure under the 1977 Act.

**Old Plan:** Members hired before May 1, 1977, who have not elected to convert to the benefit structure under the 1977 Act.

**Unfunded Actuarial Liability:** (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability as that time over the value of its cash and investments.